



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2017-18/101

DNBR.PD(ARC)CC. No.04/26.03.001/2017-18

November 23, 2017

The Chairman/ Managing Director/ Chief Executive Officer

All registered Asset Reconstruction Companies

Dear Sir/Madam,

Conversion of debt into equity- Review

Please refer to our [Circular DNBS\(PD\)CC.No. 35/SCRC/26.03.001/2013-14 dated January 23, 2014](#) on the above subject.

2. On a review of the limit imposed on shareholding of the post converted equity of the borrower company under reconstruction by Asset Reconstruction Companies (ARCs), it has been decided to exempt ARCs meeting the criteria set out in paragraph 3 below from the cap of 26% subject to compliance with the provisions of the SARFAESI Act, 2002, Guidelines/ Instructions issued by Reserve Bank of India from time to time as applicable to ARCs as well as Foreign Exchange Management Act, 1999, Reserve Bank of India Act, 1934, Companies Act, 2013, SEBI Regulations and other relevant Statutes. The extent of shareholding post conversion of debt into equity shall be in accordance with permissible Foreign Direct Investment (FDI) limit for that specific sector.

3. ARCs that meet the conditions mentioned below are exempted from the limit of shareholding at 26% of post converted equity of the borrower company:

- i. The ARC shall be in compliance with Net Owned Fund (NOF) requirement of ₹ 100 crore on an ongoing basis;
- ii. At least half of the Board of Directors of the ARC comprises of independent directors;
- iii. The ARC shall frame policy on debt to equity conversion with the approval of its Board of Directors and may delegate powers to a Committee comprising majority of independent directors for taking decisions on proposals of debt to equity conversion;
- iv. The equity shares acquired under the scheme shall be periodically valued and marked to market. The frequency of valuation shall be at least once in a month.

4. The ARC shall explore the possibility of preparing a panel of sector-specific management firms/ individuals having expertise in running firms/ companies which could be considered for managing the companies.

Yours faithfully,

(C D Srinivasan)
Chief General Manager